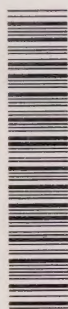


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Wartime Controls : Questions
and Answers on the Cost of
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September 12, 1944.

WARTIME CONTROLS

Questions and Answers on the Cost of Living

TABLE OF CONTENTS

	Page
I. Problems of Inflation.....	1
II. Price and Rent Control.....	5
III. Wage and Salary Controls.....	8
IV. Cost of Living Index.....	10
V. Taxation.....	13
VI. Government Borrowing and Personal Savings...	16
VII. Pressures against the Price Ceiling.....	16
VIII. Summary.....	20

I. WHAT IS THE PURPOSE OF CANADA'S STABILIZATION PROGRAM?

There is a three-fold purpose behind Canada's stabilization program. Economic stabilization is necessary for an efficient and maximum war effort; economic stabilization will prevent inflation and the chaos and hardship resulting from it; economic stabilization will prevent that economic dislocation which inevitably follows real inflation and so aids in building sound foundations for the post-war period.

2. WHY IS A STABILIZATION PROGRAM MORE ESSENTIAL DURING THE PRESENT WAR THAN IN WORLD WAR I?

During World War I, even as late as 1918, only about 10 to 15% of Canada's economic resources was used for military purposes. During the present struggle Canada is using about 50% of its entire resources solely for military purposes.

3. WHY IS SUCH A PRODIGIOUS WAR EFFORT NECESSARY?

Because, as a member of the United Nations, Canada is in a finish fight with the most highly organized, militaristic and disciplined nation in history - the German people. Germany began the war as fully mobilized as most of the United Nations are today after several years of unprecedented effort. That complete mobilization enabled it to conquer a large part of continental Europe within nine months of the outbreak of war. The choice then facing Canada was a simple one: Either to accept the German conquest and await the possible extinction of democracy in the rest of the world or to mobilize Canada's economic and military resources to the degree necessary and fight on to ultimate victory regardless of the cost. Canada chose the latter. As high as the price may seem, it is low compared to that of the only alternative.

4. WHY WERE THE PRICE CEILING AND WAGE AND SALARY CONTROLS NOT INTRODUCED UNTIL LATE IN 1941?


Because, until the spring of 1941, the nation's economy was using only part of its total capacity for production. Unused financial reserves were heavy. An important fraction of the labour force was working only part time. General economic expansion, therefore, presented no problem and was actively encouraged. Price increases, while carefully watched and subjected to some indirect control, were not at first considered dangerous and served to inspire the necessary increased production.

5. WHEN DID THE SITUATION CHANGE?

The slack in the economy disappeared between the late spring and autumn of 1941. That turning point was marked by a rapid increase in the price level. From April to October prices increased three times as fast as in the earlier part of the war. Inflation had finally become a real menace.

6. SPECIFICALLY - HOW IS INFLATION DEFINED?

Inflation is a continuous, rapid and cumulative rise in prices. The cumulative element is probably the most characteristic feature of inflation.



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7. WAS THERE NO ALTERNATIVE TO SUCH DRASTIC MEASURES AS THE PRICE CEILING, WAGE AND SALARY CONTROLS, VERY HEAVY TAXATION, PRODUCTION AND DISTRIBUTION CONTROLS, HEAVY GOVERNMENT BORROWING AND THE OTHER MEASURES NECESSARY TO A REALLY EFFECTIVE STABILIZATION PROGRAM?

Yes. There very likely was. Had the Canadian people been content with the degree of mobilization achieved by the early spring of 1941, they could probably have escaped many of the headaches that followed inevitably on striving for a really maximum and efficient war effort; but, and here is the rub, Canadian comfort and prosperity would have contrasted badly with the blood, sweat and tears of others in the common battle for freedom. Thus, in choosing to drive ahead for victory regardless of the cost involved, the Canadian people found themselves confronted late in 1941 with the menacing spectre of inflation. Their stabilization program is the answer to that threat.

8. WHAT ARE THE BASIC CAUSES OF WARTIME INFLATION?

There are two basic causes of wartime inflation. The first is greatly increased spending by both the government and the general public. The second is increased costs of production.

9. TO WHAT EXTENT HAS GOVERNMENT SPENDING INCREASED AS THE RESULT OF WAR?

In pre-war days the Dominion budget balanced at roughly \$500,000,000. During the last fiscal year the government spent nearly \$5,400,000,000.

10. WHAT ABOUT INCREASED SPENDING BY THE GENERAL PUBLIC?

As a result of the greatly increased production the amount of money at the command of the public has increased rapidly and steadily since the outbreak of war. It is estimated that the total of all individual income in Canada, even after allowing for the increase in income taxes, has risen from \$4,200,000,000 in 1939 to about \$7,000,000,000 in 1943. Since the increase in the production of consumers' goods is only about 10 to 12%, it is at once seen that \$7,000,000,000 is far in excess of the amount necessary to purchase available consumers' goods, and therein lies the danger. Too much money for too few goods spells INFLATION.

11. WHAT IS THE SECOND BASIC CAUSE OF WARTIME INFLATION?

The second force working to raise prices is the continuous pressure of higher costs of production. If production costs continue to increase, the producer or manufacturer must ultimately be able to sell at a higher price or lose money and eventually go out of business. This would reduce the supply of consumers' goods, thus making the situation even worse. The only solution to this problem is to keep costs down wherever possible.

12. CAN ALL COSTS OF PRODUCTION BE CONTROLLED?

Unfortunately, no. There are some costs over which Canada has little or no control. These are costs of imports, shipping charges and the costs of expensive substitutes for materials that Canada used to import from areas now under enemy control.

13. WHAT ARE THE COSTS THAT CAN BE CONTROLLED?

There are several costs that can and must be controlled. Higher mark-ups or higher profit margins are important examples of this kind of costs. Next, labour costs are an important element in prices. Higher labour costs can come about in a number of ways, some of them unavoidable and some not. The use of inexperienced labour, absenteeism and a high labour turnover all add to production costs. The "upgrading" of labour or the payment of high overtime rates also raises wage costs. Finally, any increase in wage rates which is not accompanied by an increase in efficiency will raise the cost of production. Similarly, the payment of substantially higher prices for food will raise the cost of living and stimulate a further demand for higher wages. To achieve economic stability, every type of cost or price that can be controlled must be controlled.

14. WHAT ARE SOME SPECIFIC REASONS WHY INFLATION MUST BE PREVENTED?

1. Economic stabilization is necessary for an efficient and maximum war effort. Such a war effort demands the planning and reorganization of Canada's economic resources, and it would have been impossible to do either without economic stability.

2. Uncontrolled inflation is a severe and unfair form of taxation. Under conditions of inflation, while some wages and salaries may keep pace with increases in prices, wages and salaries in general can never keep abreast of increases in the cost of living. For that section of the population living on pensions, annuities and other forms of small savings bringing in a fixed income, inflation spells disaster, poverty and hardship.

3. Economic stabilization will prevent post-war dislocation. A substantial measure of wartime inflation has always been followed by even greater inflation in the immediate post-war period. The inevitable DEFLATION (a sharp, continuous and sustained drop in prices, which always follows a bout of inflation, severely wrenches the entire economic system. Manufacturers and distributors are caught flat-footed with merchandise worth less than it cost them. Curtailment of production results in wholesale unemployment and the destitution and suffering of large numbers of workers and their dependents. The farmer is caught in an even worse situation. The prices of farm products fall faster and further than do those of the things he buys; the result is ruination for thousands.

4. Economic stabilization is necessary to protect the savings of the Canadian people. Most Canadians have saved something for the proverbial rainy day. They have put money into savings accounts, purchased insurance policies, annuities and other types of fixed dollar investments (those which bring in the same number of dollars regardless of what they will buy).

These savings and investments relieve the pressure on the price ceiling now. After the war, the spending of some of them will help to lessen dislocation and to sustain employment. Only through maintaining economic stability can the Canadian government return to its citizens dollars equal in purchasing power to those they are now saving or investing.

15. SPECIFICALLY, WHAT ARE THE ESSENTIALS OF AN ECONOMIC STABILIZATION PROGRAM?

An economic stabilization program consists of the economic policies, controls and other measures necessary to achieve and maintain an efficient and maximum war effort; to preserve economic stability on the home front; and to prevent post-war dislocation.

16. WHAT ARE THE MORE IMPORTANT OF THESE CONTROLS AND WHAT, IN A SENTENCE, DOES EACH OF THEM DO?

1. Price Control: Protects the consumer by putting a ceiling on the prices of goods, rents and services.
2. Wage and Salary Controls: Prevent wage and salary costs from exerting an irresistible upward pressure on the cost of living, while providing for wage adjustments to meet cases of hardship.
3. Distribution Controls: Allocate materials and supplies to war and civilian industry on an efficient and equitable basis and ensure a fair share of goods to the consumer.
4. Wartime Taxation: Provides funds for carrying on the war in the fairest way possible and prevents excess spending from bidding up prices.
5. Government Loans: Provide necessary additional funds for war while simultaneously reducing excess current purchasing power and providing extra financial resources for the individual and the economy as a whole in the post-war period.

17. ARE ALL OF THESE CONTROLS NECESSARY?

They are. Furthermore, they interlock in such a manner that a defect in the working of any one of them directly weakens the system of controls as a whole. Similarly the economic interests of the various groups making up the population are inseparably intertwined. Just as members of any one group appreciate the necessity of ceilings being placed on the products of all other groups, so they in their turn must accept controls on their products for the common good. Victory on the military and home fronts demands joint effort and joint responsibility in a common cause.

PRICE AND
RENT
CONTROL.

18. WHAT IS THE GENERAL PRINCIPLE UNDERLYING PRICE CONTROL?

The general principle is: Today's prices must not exceed those prevailing in October, 1941. In general, this ruling is rigorously enforced notwithstanding the fact that costs of production may have risen and styles and materials may have changed since that time. In some cases individual ceiling prices have been replaced by uniform ceiling prices for all sellers, but many other goods and services are still selling at the same prices ruling in the same store more than two years ago.

19. ARE THERE ANY PERMITTED PRICE INCREASES?

Yes. There have been some permitted price increases in special cases where the price "freeze" caused hardship or injustice, or where supply was seriously threatened as a consequence. These increases have been mainly responsible for the 3% increase in the cost of living that has occurred since December, 1941.

20. WHAT IS THE SO-CALLED "SQUEEZE" WHICH, IN SOME CASES, AROSE OUT OF THE ESTABLISHMENT OF THE PRICE CEILING?

The "squeeze" describes a situation existing where a manufacturer or other producer was caught between the price ceiling imposed on his product and increasing costs in producing that product. Unable to increase prices, he had to absorb the increases in costs of production himself. Where, however, the "squeeze" exerted on producers by the ceiling has become so severe as to endanger production, the government has helped in various ways.

21. WHAT ARE SOME OF THE MORE IMPORTANT STEPS TAKEN BY THE GOVERNMENT IN SOLVING THIS PROBLEM?

1. In some cases the "squeeze" on the manufacturer has been reduced by allowing him to pass on part of it to the distributors in the form of higher prices with the proviso that prices to consumers must not be raised.
2. In other cases "simplification" directives have eliminated unnecessary frills, cut down the number of styles and models permitted and, in general, standardized production. Such action saves materials and cuts both production and distribution costs.
3. The government sometimes suspends customs and other import duties and thus cheapens the cost of imported materials.
4. Again, the government may cut import costs through bulk purchases by the government itself. Such goods are then resold to manufacturers, sometimes at a loss.
5. Finally, as a last resort, and only as a last resort, the government has found it necessary to pay subsidies to enable producers to meet an unavoidable and serious increase in costs. Subsidized imports enable the Canadian to purchase foreign fruits, cotton textiles and other goods at 1941 prices. Subsidies to Canadian farmers have prevented increases in the price of food.

22. WHAT IS THE GREATEST MERIT IN THE USE OF SUBSIDIES IN PREVENTING PRICE INCREASES OR, IN SOME CASES, IN BRINGING ABOUT LOWER PRICES?

Subsidies can be used to prevent price increases which, if they were allowed, would result in many other price increases and thus lead directly into the inflationary spiral. For instance, assume an increase in price has been granted to producers of a certain raw material. Naturally enough, this increased price will be passed along through the manufacturing process and through the distributive trades. Where percentage mark-ups are used to determine profits on the various transactions, the original price increase is steadily augmented all along the line until the commodity involved reaches the hands of the final consumer. As a result, the price increase originally allowed on the raw material has automatically led to additional price increases of a distinctly inflationary nature. The wise use of subsidies to prevent the original price increase also prevents the cumulative increase which occurs as the material passes through the productive and distributive processes. Used in this manner, subsidies are an invaluable weapon in the campaign against inflation.

23. IS THE USE OF SUBSIDIES NOT MERELY TAKING MONEY FROM ONE POCKET OF THE TAXPAYER AND PUTTING IT INTO ANOTHER?

No. This is definitely not the case. Subsidies are paid out of general treasury funds, a large percentage of which is raised by the income tax. The income tax falls on persons in accordance with their ability to pay. As a result, consumers in the lower income bracket obtain a much greater benefit from the use of subsidies than they would receive if benefits received were determined by the amount of taxes paid. Nevertheless, subsidies are used sparingly and only as a last resort.

24. HOW EFFECTIVE HAS BEEN THE "FREEZING" OF RENTS?

The "freezing" of rents had definitely prevented what otherwise might have been a serious increase in the cost of living. The index shows that the wartime increase in rents (which occurred before rent control was introduced) has been only 7.4%. This compares very favourably with the increase in food costs (34.1%) and with the increase in the average total cost (18.3%) of the complete budget. Had it not been for rent control, the increase in rents would unquestionably have been definitely higher than they are to date.

25. WHY WAS RATIONING INTRODUCED?

Rationing was introduced to carry out the principle of "share and share alike" in the distribution of some essential commodities which are relatively scarce. Coupon rationing is the fair and democratic answer to this problem. To let every person scramble for himself would be about as unfair and as ineffective as it would be to let prices, rents and wages be determined by the highest bidder.

26. IS NOT RATIONING THE FAIREST SOLUTION TO ALL SHORTAGES? IF SO, WHY HASN'T IT BEEN USED MUCH MORE WIDELY THAN IT IS IN CANADA?

The easy assumption that rationing is the fairest solution to all shortages is quite unsound. If supplies are clearly inadequate to meet civilian demand and the article is a necessity, or nearly so, rationing must be seriously considered; but, in deciding whether or not rationing is necessary, the Wartime Prices and Trade Board has to take many things into consideration. Is the shortage temporary or permanent? Is the article sufficiently important to justify the inconveniences and administrative cost of coupon handling? Can supplies be controlled tightly enough to make rationing effective? Perhaps most important of all - will rationing achieve equitable distribution? Except for goods which are generally used in approximately equal quantities by everybody, an equal ration per person is not necessarily an equitable ration and may even lead to a more wasteful form of distribution than existed before rationing was introduced. For example, in cases where large numbers of persons need little or none of a certain commodity at all, while others require substantial quantities (as in the case of canned vegetables) an equal ration for all is not an equitable ration.

Furthermore, to enforce rationing the commodity in question must move through the various distribution channels only against the surrender of coupons. This means that control over the distribution of supplies must be established at the producer or importer stage. It is a relatively simple thing to do this in the case of imports, but it is a very different proposition in the case of foods which are produced in Canada by a relatively large number of small producers and which often move directly from producer to consumer. The difficulty of enforcing rationing in such cases is immense.

In addition to these difficulties, rationing imposes a terrific administrative burden on the government and on the trade affected. Even under the present relatively limited food rationing program in Canada, an average of nearly 30,000,000 coupons become valid each week. The result is that a heavy sorting and counting problem is placed on the retail trade. One large food chain has informed the Prices Board that it employs full-time 60 persons who do nothing but handle coupons and other ration documents. Behind the retail trade the burden of coupon flow-back has been minimized by the use of ration bank accounts. Nevertheless, the paper work involved in issuing ration books and keeping track of ration currency is colossal. The Prices Board itself has about 1,000 persons engaged full-time in the headquarters and regional offices of the ration administration. In addition there are 600 paid workers, most of them part-time, employed by the local ration boards. Finally, there are many thousands of volunteers attached to these local boards who help in issuing ration books, as well as the bank clerks, storekeepers and the office personnel of the distributive trades to whom ration documents mean either a full-time job or take up at least some hours of each working day.

It is with all this in mind that the Wartime Prices and Trade Board has followed the general principle that rationing is a last resort and used only when all other means of meeting a particular and chronically bad situation are clearly inadequate.

27. WHY DO EFFECTIVE PRICE CONTROLS HAVE TO BE SUPPORTED BY OTHER TYPES OF CONTROL OVER THE PRODUCTION AND DISTRIBUTION OF GOODS?

Price controls alone would not work if goods were so desperately scarce or so badly distributed that consumers were driven to offer high prices in order to get what they needed. This danger is avoided by a system of production and distribution controls operated by the Wartime Prices and Trade Board, the Departments of Agriculture and Fisheries, the Wartime Industries Control Board and other government agencies.

WAGE AND
SALARY
CONTROLS

28. WHY WAS IT NECESSARY TO CONTROL WAGES AND SALARIES?

Wages and salaries combined make up a very important part of all production and distribution costs. This is not always apparent because frequently it is overlooked that the materials, transportation and other resources used in manufacturing goods also embody a large amount of wage costs. The result is that in many cases it would be impossible to increase wages and salaries without the increase being passed on ~~to the consumer~~ in the form of higher prices. Under the circumstances, price control necessitated the control of wages and salaries.

29. WHAT IS THE BASIC PRINCIPLE UNDERLYING WAGE REGULATIONS TODAY?

No employer may increase wage rates without the permission of a war labour board. The war labour boards, in turn, are empowered to authorize wage increases only in certain specified circumstances.

30. WHAT ARE THE SPECIFIED CIRCUMSTANCES IN WHICH WAR LABOUR BOARDS MAY AUTHORIZE WAGE INCREASES?

Present regulations permit war labour boards to authorize increased wage rates in two types of cases. First, an increase may be authorized where the board finds it necessary to rectify a gross inequality or gross injustice. Second, a board may, if it deems such action fair and reasonable, authorize an increase in rates for wage earners who have not, since the beginning of the war, received either an increase in wage rates or a cost of living bonus or a combination of the two, equal in amount to the cost of living bonus which any workers of that category would have been able to receive under the Wages Control Order before it was amended in December, 1943. The Wages Control Order also requires the board to take into account the probable effect of such an increase on costs of production and on the cost of living.

31. WHAT WAS THE PURPOSE OF THE COST OF LIVING BONUS?

The cost of living bonus was intended to protect workers, whose wages were controlled, against any increase in the cost of living which might occur despite price controls. When the Wages Control Order was revised in December, 1943, it provided that the cost of living bonuses payable under the previous order should be incorporated into basic wage rates as from February, 1944, ~~and were not to be further increased.~~

32. WHY WAS THAT STEP TAKEN?

Because the cost of living has risen less than four points since the introduction of the price ceiling. Furthermore the Prime Minister stated, in announcing the revisions, that the government would take all practical measures to keep the cost of living at present levels, and that "If the cost of living rises by more than 3% and remains at that level for two consecutive months, the government will review the whole program of price control and wage control and take appropriate action." Thus the line must be held.

33. HAVE WAGE REGULATIONS HAD THE EFFECT OF "FREEZING" WAGES?

Definitely not. To November, 1943, enough adjustments in both wage rates and cost of living bonuses were granted to add nearly \$150,000,000 a year to labour's income.

34. WHAT FACTORS OTHER THAN INCREASED WAGE RATES HAVE INCREASED THE AVERAGE EARNING OF CANADIAN WORKERS SINCE THE OUTBREAK OF THE PRESENT WAR?

Many workers have been able to move out of relatively low-paid jobs into better-paid occupations, especially in war industries. Work has been more regular than it was before the war; half-time has become full-time; full-time has lengthened into overtime at higher rates of pay. Many workers have been reclassified or "upgraded" or promoted to higher paid jobs. In addition, cost of living bonuses have been paid, first on a restricted basis, but ultimately to nearly all wage earners.

35. HAS THE INCOME OF WORKERS KEPT PACE WITH INCREASES IN THE COST OF LIVING?

Available official statistics show that the income of a very large percentage of workers has definitely kept abreast of increases in the cost of living. The following tables clearly illustrate this point:

Note on Wages in Relation to Cost of Living - 1939-1944

1939-41

Cost of living index (1935-39 100)	Average wage rate (1935-39 100)
Average 1939 - 101.5	Average 1939 - 105.3
Average 1941 - 111.7	Average 1941 - 119.2 (including cost of living bonus)
Percentage increase - 10.0	Percentage increase - 13.2
1941-44	
Cost of living index (1935-39 100)	Average Weekly Earnings (8 leading industries) *
December 1941 - 115.8	December 1941 - \$27.32
April 1944 - 119.1	April 1944 - \$32.33
Percentage increase 2.9	Percentage increase 18.3

* Logging, manufacturing, mining, communication, construction, services, trade and transportation.

36. ARE SALARIES CONTROLLED TO THE SAME EXTENT AS WAGES?

To some extent the control over salaries is even more rigorous than wage control. Wartime executive and managerial salaries come under the Wartime Salaries Order which is administered by the income tax division of the Department of National Revenue. Under that order salaries of individuals are frozen at the rates in effect in November, 1941. They may be increased only with specific authority in each individual case justified by promotions involving added responsibilities and increased duties or, in a restricted class of cases, by the adjustment of a salary which had been established at a probationary rate, or by other special circumstances set forth in the order.

T OF 37. WHO PUTS OUT THE COST OF LIVING INDEX?

ING
EX The Dominion Bureau of Statistics.

38. WHAT IS THE PURPOSE OF THE COST OF LIVING INDEX?

The cost of living index measures the influence of changes in retail prices of goods and services on the cost of a representative urban wage-earner family budget. Many persons use the term "living costs" to include the total cost of things they buy which would include different things from month to month and likewise, different amounts and qualities of the same things. The Bureau's index is based on a different idea. It measures changes in the cost of a family budget which includes the same amounts of the same commodities and services for considerable periods of time. It is revised only to take account of important "long-run" changes in consumption.

39. WHEN WAS THE INDEX LAST COMPLETELY OVERHAULED AND BROUGHT UP TO DATE?

In 1938, as the result of a year's careful survey. During that survey the budgets of 1,439 typical wage-earning families across Canada were carefully studied. The average number of persons per family was 4.6. Incomes ranged from \$600 to \$2,800, but were concentrated in the \$1,200 to \$1,600 class and averaged \$1,453.

40. HAS THE INDEX BEEN KEPT UP TO DATE SINCE 1938?

Yes. Since 1938, and particularly during the war years, special efforts have been made to keep the index up to date with regard to both statistics and consumption habits. Items no longer available are omitted and replaced by others. The weighting of certain commodities has been changed where rationing has cut down their consumption. Furthermore, the Bureau gets systematic reports on the prices of all goods and services going into the index. Hundreds of storekeepers turn in monthly reports. The Bureau's own representatives make regular visits to stores in their districts and then make confidential reports to the Bureau. Deterioration of quality is watched for, reported when found and treated in the same way as an increase in price. Unavailable brands are replaced by the next highest price brand that is available. Thus a real effort is made by the Bureau to keep the index up to date.

41. WHAT IS THE BASE PERIOD OF THE INDEX?

1935-39.

42. WHERE DID THE INDEX STAND IN AUGUST, 1939?

100.8.

43. HOW MANY ITEMS ARE INCLUDED IN THE INDEX?

About 150 items which are divided into major groups.

44. DO 150 ITEMS SUPPLY SUFFICIENT COVERAGE TO PRODUCE WORTHWHILE RESULTS?

Coverage seems to be ample. For instance, there are some 46 food items covering about 75% of the total food expenditure in the average budget. A recent study showed that the average price of only 15 items varied but one-fifth of 1% from the average of all 46 over a period of four years.

45. WHAT ARE THE SIX MAJOR GROUPS INTO WHICH THE 150 ITEMS ARE DIVIDED?

1.	<u>Food</u>	Expenditure for which took (in 1943) 34.6% of total budget						
2.	<u>Rent</u>	Expenditure	"	"	"	17.8%	"	"
3.	<u>Clothing</u>	Expenditure	"	"	"	12.1%	"	"
4.	<u>Home Furnishings and Services</u>	Expenditure	"	"	"	8.9%	"	"
5.	<u>Fuel and Light</u>	Expenditure	"	"	"	5.7%	"	"
6.	<u>Miscellaneous</u>	Expenditure	"	"	"	20.9%	"	"

46. WHAT IS THE PURPOSE OF "WEIGHTING" ITEMS IN THE INDEX?

Budget items vary considerably in their importance to the consumer. Account is taken of this in the index by "weighting" the goods and services entering into the budget according to their importance. For example, the budgetary study of the Bureau showed that the average family studied consumed .7 pounds of bacon per week, whereas it consumed 12.1 pounds of bread and 10.5 quarts of milk during the same period. Obviously, therefore, milk and bread are of much greater importance to the average family than bacon and are so considered in the index. As a consequence, a slight change in the price of a very important article or service will much more than offset a marked change in the price of a relatively much less important article or service. This is an important point and one that is frequently not understood by the average person.

47. DOES THE SAME SITUATION HOLD WITH REGARD TO THE VARIOUS GROUPS OF ITEMS ENTERING INTO THE INDEX?

It does, and in exactly the same way. For example, from August, 1939, to August, 1943, the price of the food group increased 34.1%. Many persons assumed, therefore, that the cost of living had increased definitely more than the 18.3% shown in the index; but those persons overlooked the fact that, while food comprises the most important single group in the index, the prices of the two groups next in importance - rent and miscellaneous - showed much smaller increases and hence seriously offset markedly increased food costs.

48. ARE INCOME TAXES INCLUDED IN THE COST OF LIVING INDEX?

No. They are not and for very sound reasons. The cost of living index determined the cost of living bonus. Had the income tax been included in the cost of living index, the bonus would therefore have kept pace with the increase in income tax. The net result would have been that bonus recipients would have paid little or no income tax. This would have curtailed the war effort as well as thrown a disproportionate percentage of war costs on those who did not receive the bonus. The costs of this war are a common obligation on all Canadians according to their ability to pay. Secondly, inclusion of the income tax in the index would have meant that the cost of living of a single man (with less tax exemption than a married man) would have increased much faster than that of a married man in the same wage group and living at approximately the same standard of living, a proposition fantastic in itself. For these sound reasons the income tax is not included in the cost of living.

49. WOULD NOT A SERIES OF REGIONAL INDEXES BE PREFERABLE TO A SINGLE NATIONAL INDEX?

No, because the range of prices within a particular area may be just as great as that of the country as a whole; hence nothing would be gained by the change. Furthermore, if a request for regional indexes were granted it would not be long before groups within each region would be asking for an index for their particular group. Too often each group within a particular community feels that its cost of living has increased faster than that of any other group.

50. WHAT ARE SOME OF THE IMPORTANT OVERSIGHTS MADE IN ATTEMPTING TO ESTIMATE THE INCREASE IN PARTICULAR COSTS OF LIVING?

1. Many families are living better than they used to. Some of these doubtless attribute too much of their increased spending to increases in the cost of living. They overlook the fact that they have changed their standards of living.
2. Children are five years older than they were when war broke out. This factor would have increased the expenses of a family even when no change took place in the index.

3. Many families have increased in size during the last five years, and this factor would have increased family expenses regardless of changes in the index itself.

TAXATION

51. WHY IS HIGH WARTIME TAXATION A DEVICE ESSENTIAL TO CONTROLLING THE COST OF LIVING?

The primary purpose of taxes is to provide the government with the money necessary to pay the costs of war as well as those of ordinary government services. In addition, however, the payment of taxes reduces excess purchasing power and thus curbs a force tending to push prices upward. As a result, money which might otherwise be used to purchase the less necessary consumers' goods is used by the government to further the war effort.

52. WHAT IS THE MOST IMPORTANT REQUIREMENT OF TAXES?

The most important requirement of taxes is that they should be fair. That principle is embodied in the formula: "Equality of sacrifice on the basis of ability to pay." Based on this policy wartime taxes have been generally "progressive" in nature that is, they have fallen more heavily on higher incomes and profits as well as on those luxuries and less necessary goods the purchase of which is evidence of some ability to pay.

53. TO WHAT EXTENT HAVE WARTIME CHANGES IN TAXATION ALTERED CANADA'S TAX SYSTEM?

They have revolutionized the entire tax system. Before the war the sales tax, import duties and other commodity taxes produced the major share, while income taxation produced only a minor part of total government resources. Today the situation is reversed. Direct taxes on incomes and profits produce the bulk of revenue, while the indirect and less desirable types of taxation account for only a small percentage of the total.

54. HOW MANY CANADIANS PAY INCOME TAX TODAY?

Wartime changes in tax exemption increased the number of Canadians paying income tax from 300,000 to nearly 2,000,000.

55. WHAT PART DOES THE HEAVY TAXATION OF BUSINESS PROFITS PLAY IN THE CANADIAN STABILIZATION PROGRAM?

An important one. In the first place, taxes help curtail spending. In the second, they operate as a check on prices in addition to the control over profiteering exercised by the Wartime Prices and Trade Board and, in the field of war supplies, by the Department of Munitions and Supply.

56. JUST HOW HEAVILY ARE BUSINESS PROFITS TAXED?

Very heavily indeed. In general, all profits of every corporation are first subject to an income tax of 18%; then to an additional flat rate profit tax of 12%; and finally, to a rate of 100% of profits in excess of pre-war "standard" profits. When the 100% rate applies, the corporation is

entitled to a post-war refund of 20%. This refund leaves an incentive for keeping down costs by efficiency and economy - a vital matter in time of war. The net result of these taxes is that if a corporation is able, by any reasons whatsoever, to make profits in excess of its pre-war "standard" profits, it is allowed to retain at most only an amount equal to 70% of that "standard." The following example of how business profits are taxed will clarify this point:

Situation:

"Standard" profits are defined as the average of 1936-39 profits. Say a company's "standard" profits are \$100,000; and the profits made in 1943 are \$200,000.

THEREFORE:	"STANDARD" profits:	\$100,000
	"EXCESS" profits:	100,000
	TOTAL PROFITS:	\$200,000

Problem:

Find the total taxes paid by the corporation.

Taxes:

Under the Corporation Income Tax Act and the Excess Profits Tax Act there are three separate rates applied:

1. Corporation Income Tax of: TAXES
18% on total profits of \$200,000.....\$ 36,000
 2. Additional flat rate of:
12% on total profits of \$200,000.....\$ 24,000
 3. And an additional tax, whichever is the larger of:
 - (a) 10% on total profits of \$200,000.....\$20,000
 - OR
 - (b) 100% on excess profits of \$100,000....\$100,000)

minus (18% of excess.....(\$18,000)
and (12% of excess.....(\$12,000)

...\$ 30,000)

...\$ 70,000
- (b) is larger than (a) therefore the tax is..... \$ 70,000

TOTAL TAXES ARE:	<u>\$130,000</u>
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TOTAL profits.....	\$200,000
TOTAL taxes.....	\$130,000
PROFITS LEFT AFTER TAXES:	\$ 70,000

This is 70% of "standard" pre-war profits of \$100,000 .

- NOTE: 1. 20% of excess profits tax is refundable after the war without interest.
2. 1944-45 budget allows "standard" to be increased by an amount equal to 5% of new capital invested in the company since the war began.

57. IN ADDITION TO TAXES WHAT OTHER MEANS ARE USED TO PREVENT PROFITEERING?

In the first place, it must be remembered that under conditions of rising costs price control itself sets a limit on profits. This was explained under the heading of "squeeze". Second, it must not be overlooked that the profits which remain after taxation are subject to the personnel income tax when they reach the shareholder in the form of dividends.

58. WHAT ARE THE LATEST OFFICIAL FIGURES AVAILABLE REGARDING CORPORATION PROFITS?

Those compiled by the Bank of Canada and published in its STATISTICAL SUMMARY, April-May, 1944, under the title of "Profit Statistics for 627 Companies Classified by Asset Size." This survey shows that profits (net income to stockholders) increased from the 1936-39 average to the end of 1942 by 16.32%. This is hardly an unwarranted increase.

59. TO WHAT EXTENT CAN CORPORATIONS DODGE TAXATION BY BUILDING UP SUPERFLUOUS INVENTORY RESERVES?

The amount and use of funds earmarked for inventory reserves are strictly regulated by law. The amount is determined by multiplying the normal quantity of units (determined by the base period 1936-39) by 1939 prices. In case the reserves are not entirely used up within the year for which they are allocated; they must be within the following 12 months or added to the profits of that year and subjected to taxation.

60. WHAT ABOUT UNDISTRIBUTED CORPORATION INCOME?

Undistributed corporation income has already been taxed and hence presents no fiscal problem for the government.

61. TO WHAT EXTENT ARE COMPANIES ALLOWED TO PROFIT UNFAIRLY THROUGH GENEROUS DEPRECIATION ALLOWANCES, PARTICULARLY IN THE CASE OF WAR INDUSTRIES?

Some persons are under the impression that certain companies have been allowed to profit unfairly through generous depreciation allowances, particularly in the case of war industries. The latest statistics (Statistical Summary, Bank of Canada, April - May, 1944) do not bear out this belief. The combined depreciation, deferred development and patent write-offs of 627 companies amounted to \$106,800,000 in 1936, a relatively poor year for business. The same write-offs amounted to only \$242,300,000 in 1942. In peacetime all depreciation write-offs were limited to 10% where machinery was used for only one shift per working day, 15% for two shifts and 20% for three shifts. Since the war, special write-offs have been allowed for certain war industries. In some cases complete write-offs have been allowed in from one to three years, depending on the estimated post-war value of the machinery involved. Each of the applications for special consideration is made under affidavit and is considered by a special

board on which the National Revenue Department is represented. Furthermore, each company remains subject to independent investigation for income tax purposes by the Department. On machinery and equipment supplied by the government, no depreciation is allowed, and the government retains the title. Since from 1936 to 1942 the increase in the annual write-offs mentioned amounted to only \$135,500,000 it may be stated that the impression mentioned hardly corresponds with the facts of the situation.

GOVERNMENT
BORROWING
AND PERSONAL
SAVINGS

62. WHY ARE HEAVY GOVERNMENT BORROWING AND PERSONAL SAVINGS ESSENTIAL IN WARTIME?

It is the avowed policy of the government to pay as much of the costs of war as is possible out of taxation. There are, however, practical limits to what can be done by taxation alone. When taxes on incomes become very high they reduce a man's incentive to earn more by producing more or working harder or running his business more efficiently and economically. It also becomes more difficult to make proper allowances for the various circumstances that govern a man's ability to pay taxes, as a fair taxation system should do. Moreover, it is not possible by taxation alone to reduce the spending of individuals to the level where it will not cause higher prices. It is necessary, therefore, for the government to meet the balance of its war expenditures, and to drain off dangerous excess purchasing power, by appealing to citizens to save all they can, and to invest those savings in Victory Bonds and War Savings Certificates.

63. TO WHAT EXTENT HAVE INDIVIDUAL CANADIANS RESPONDED TO THE APPEALS OF THEIR GOVERNMENT TO SAVE AND INVEST IN VICTORY BONDS AND WAR SAVINGS CERTIFICATES?

More than 3,000,000 applications were received in the sixth Victory Loan campaign. Since the war began, individuals have bought and held more than \$3,250,000,000 of War and Victory Bonds and War Savings Certificates.

PRESSURES
AGAINST THE
PRICE
CEILING

64. WHY STILL WORRY ABOUT A STABILIZATION PROGRAM IN THE SIXTH YEAR OF THE WAR?

Pressures tending to force up the cost of living continue to threaten the soundness of Canada's wartime economy. Canadians have recognized the need for keeping the economy on an even keel in order to maintain their war effort and to prepare for the post-war period. It is perhaps not unnatural, however, in the sixth year of war, that a sense of the individual responsibility for maintaining a stable economy should need restressing.

65. WHAT IS THE SOURCE OF PRESSURES AGAINST THE PRICE CEILING?

Specific pressures against the price ceiling are exerted by some manufacturers or distributors, some farmers and some workers.

66. HOW DO CERTAIN MANUFACTURERS AND DISTRIBUTORS EXERT PRESSURE AGAINST THE PRICE CEILING?

A manufacturer may argue that his costs of production have gone up or perhaps that his imported materials are more expensive than they used to be. He finds himself squeezed between a floor of costs, which is rising, and a fixed price ceiling. He is not "in the red", but his profits are declining. He wants only another nickel on the price but the Prices Board has to refuse. If it relaxed control in this particular case, it could not fairly refuse relief in hundreds of other cases. The inevitable result would be the breakdown of the price ceiling.

67. HOW WOULD PRESSURE FROM FARMERS FOR HIGHER FOOD PRICES EXERT PRESSURE ON THE PRICE CEILING?

The purchase of food represents, roughly, one-third of the consumer's total expenditures. The increase that has occurred in the price of farm products during the last three years has had an appreciable effect on the cost of living. Any further increase will make it extremely difficult to keep the cost of living under control. Increased living costs would lead immediately to a demand for higher wages. If labour costs were to go up, manufacturers would demand price increases for their products. Once again Canada would be confronted with the inflationary cycle.

68. WHY WERE FARM PRICES NOT LIMITED TO THE LEVELS PREVAILING WHEN THE PRICE CEILING WAS INTRODUCED IN DECEMBER, 1941?

At the outbreak of the present war farm prices were still far below what might be called a reasonable level. To some extent this situation prevailed even at the inauguration of the price ceiling late in 1941. Therefore, to bring farm prices into balance with other prices and with wages, to meet increased costs of production and to stimulate the necessary production of food products, the government has authorized price increases or granted subsidies for farm products during the last three years, even though other prices have been frozen at 1941 levels.

69. WHAT EFFECT HAVE THE AUTHORIZED PRICE INCREASES AND SUBSIDIES HAD ON FARM PRICES GENERALLY?

Since October, 1941, the over-all wholesale level of farm prices has increased about 40%.

70. WHAT IS THE INCREASE IN THE LEVEL OF FARM PRICES SINCE 1939?

About 60%.

71. TO WHAT EXTENT HAS THE CANADIAN FARMER INCREASED HIS OUTPUT OF FOOD SINCE THE OUTBREAK OF WAR?

Despite the shortage of both farm machinery and farm labour, the Canadian farmer has increased his output of food somewhere between 40 and 50%. This shows that he is producing more efficiently today than ever before.

72. WHAT HAS BEEN THE EFFECT OF INCREASED FARM PRICES AND INCREASED FARM OUTPUT ON THE CASH INCOME OF THE FARMER?

Higher prices combined with increased production have just about doubled the gross cash income of Canadian agriculture between 1939 and 1943.

73. WHERE DO FARM PRICES STAND TODAY IN RELATION TO OTHER PRICES AND THE COST OF LIVING?

Despite the fact that farm costs have increased somewhat, farm prices have finally achieved about the same relation to other prices and to the cost of living as existed between 1926 and 1929. This was a relatively prosperous period for the Canadian farmer as well as for the other groups in the community.

74. NOW THAT A REASONABLY SATISFACTORY LEVEL OF FARM PRICES HAS BEEN ATTAINED, DO MOST CANADIAN FARMERS RECOGNIZE THE NECESSITY OF SUPPORTING A GENERAL PROGRAM OF PRICE STABILIZATION?

Yes. There are two important reasons - reasons appealing directly to self interest - why farmers will support stabilization at price levels now prevailing. First, with a stabilized price level and an assurance that a reasonable profit will result from productive operations, farmers can expand output with some confidence. This has led to a marked increase in production and a corresponding increase in farm income.

75. WHAT IS THE SECOND REASON WHY INFLATION WOULD HURT THE FARMER?

Past experience has clearly shown that wartime inflation has been distinctly harmful to agriculture in the long run. Any temporary gains due to inflation have been more than offset by the eventual losses in a protracted and violent period of readjustment. The net result has always been a lowering of the standards of living and of the general welfare of those associated with agriculture. If such a development can be prevented in this war, it will be possible to reduce the severity of post-war maladjustments and thereby strengthen the long-run position of agriculture.

76. WOULD THE POLICY OF PRICE FLOORS COMPLETELY OFFSET THE DANGER OF DEFLATION TO FARMERS?

With the uncontrolled price movement characteristic of inflation, the prices for farm products might well be such as could not be maintained after the war, even with the aid of price floors and other measures of price support undertaken by the government. Should this prove to be the case, the establishment of a high farm cost structure, which would be difficult to bring into alignment with farm prices, would in the long run more than offset any temporary advantage accruing to farmers through inflation. The Canadian farmer, therefore, has much to gain from the support he is giving to the stabilization program.

77. WHAT IS THE ATTITUDE OF CANADIAN LABOUR TOWARD THE STABILIZATION PROGRAM?

Labour whole-heartedly supports the policy of the price ceiling. Similarly, no important labour body in Canada has argued against the principle of wage control. On the other hand, there have been some demands for wage increases which are based on a misunderstanding of the issues involved and which, if they became widespread, would endanger the whole stabilization policy.

78. IN WHAT PARTICULAR RESPECT HAS A MISUNDERSTANDING OF THE ISSUES INVOLVED BEEN USED AS AN ARGUMENT FOR WAGE INCREASES?

It has sometimes been argued that, in particular cases, employers could afford to pay higher wages without increasing prices and that such action would not be inflationary. This statement, however, overlooks the fact that if increases were authorized on this basis then the government would be forced to permit increases in other cases where employers could not pay those increased wages without price increases. That action would be inflationary.

79. HAS THE GOVERNMENT NO ALTERNATIVE TO FLAT REFUSAL IN SUCH A CASE?

Yes. The government has alternatives, but each of them is undesirable. If the government simply refused wage increases in the second case, it would be discriminating between workers doing approximately the same kind of work. If, on the other hand, the government allowed workers in the less profitable firms to shift to the higher paid units, it would prevent the orderly working of the wartime economy and would curtail consumer supplies from the fixed and lower wage industries.

80. WHAT OTHER MISUNDERSTANDING OF THE ECONOMIC ISSUES INVOLVED HAS BEEN USED AS THE BASIS OF DEMANDS FOR WAGE INCREASES?

It has occasionally been suggested that wage control is unnecessary in industries producing war materials on the grounds that these goods are not purchased by ordinary consumers and that, therefore, such wage increases could be granted without affecting the price level. This is not a valid argument. In the first place, exactly the same reasons advanced in the previous section can be used here. In the second, an increase of wages in the munitions industries would result in an increase in the cost of munitions, and additional government revenues would have to be raised to meet the increased expense. This means that every taxpayer, including those wage-earners who were not entitled to higher wages, would have to pay more taxes.

81. DID NOT HOLDING WAGE RATES DOWN TO 1941 LEVELS CAUSE SOME CASES OF INEQUITY WHICH NEEDED TO BE REMEDIED?

It did. Consequently the war labour boards (on which labour is represented) have the power to rectify cases of hardship or injustice or to permit upward adjustments in other special cases. To November, 1943, war labour boards dealt

with about 43,500 applications for wage adjustments affecting more than 3,000,000 workers. Increases in wages and cost of living bonuses have been permitted in more than 90% of the cases, but apart from situations of this kind the wage ceiling must be held if Canada is to avoid inflation.

III. SUMMARY 82. HOW SUCCESSFUL HAS CANADA'S STABILIZATION PROGRAM BEEN?

It has been a real success. The official cost of living index shows an increase of only about 3% since December, 1941, when the price ceiling policy was adopted. That is one of the smallest wartime increases of all the important countries among the United Nations. To appreciate fully that achievement, it is only necessary to recall that during a roughly similar period in World War I (1917-18) average prices rose 10 times as much. Furthermore, during this war the upward pressure on prices has been far greater because of the fact that a much larger proportion of the country's resources has been mobilized for war (50% compared to between 10 and 15% from 1914-1918). For that reason the effectiveness of Canada's current economic controls is all the more impressive.

83. ARE CANADA'S WAGE AND PRICE CONTROLS AND OTHER STABILIZATION MEASURES UNIQUE?

By no means. They are duplicated in one form or another in the United Kingdom, in the British Dominions and in the United States. Certain features of the Canadian system of controls have been copied from the systems of other countries, while other features of the Canadian stabilization program have been copied elsewhere.

84. TO WHAT CAN THE SUCCESS OF CANADA'S STABILIZATION PROGRAM BE ATTRIBUTED?

That record is the result of the unceasing vigilance, unrelenting effort and joint responsibility of the Canadian people as a whole in defence of a common cause.

85. ARE THE DANGERS OF INFLATION STILL PRESENT?

They are, in just as menacing a form as they ever were, and they will be present until complete victory is safely within the United Nations' grasp. To slip up now, to relax even momentarily will not only mar that record, it will weaken the war effort at a moment of crisis in the battle for democracy.

86. HOW CAN CANADA'S STABILIZATION PROGRAM BE SUMMARIZED IN A FEW SENTENCES?

Canada's stabilization program is a democratic way of mobilizing a country for a maximum and efficient war effort. It is democratic because it is fair and because responsibility rests with the people of Canada themselves. The detailed application of the necessary policies must of necessity be placed in the hands of officials, but the final responsibility rests with the people and with their representatives in Parliament. In the last analysis such a bold program of

economic stabilization calls for and depends on the continued exercise of self-restraint on the part of every Canadian.

87. HOW CAN EACH AND EVERY CANADIAN HELP DO THE JOB?

By:

1. Paying taxes promptly.
2. Cutting out all unnecessary spending.
3. Buying all the Victory Bonds and War Savings Certificates possible.
4. Buying and selling only at legal prices.
5. Refraining from attempting to get more than a fair share of scarce supplies.
6. Supporting both price and wage controls.
7. Refusing to press claims for higher profits or higher pay.

